

**Preface**  
**“Affordable Housing and Growth Management and Sprawl”**

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In one sense, the Millennial Housing Commission has a strikingly simple task: to recommend to the United States Congress actions that would increase the amount of housing affordable for those who can't compete for it without spending a prohibitive portion of their incomes. By itself, this is not terribly difficult; the United States has sufficiently sophisticated capital markets and private and public sector development acumen to achieve the worthy goal of increasing supply.

To be fair, increasing the supply of affordable housing would require clearing some imposing hurdles. For instance, taxpayers would have to be convinced that affordable housing remains an important national goal, important enough to fund at higher than present levels. But this case has been more or less successfully made since the 1930s, as seen in the network of local housing and redevelopment agencies charged with developing and managing public housing. Therefore, the commission could simply recommend that Congress grow the resources and power available these agencies to serve a larger share of the public.

If nothing else, the result would be that the market would serve about seven in 10 households, with the balance of need being met by government, though a sizeable portion of those served by the market would no doubt be paying more than 30 percent of their income towards housing. For a number of reasons, the seven in 10 served by the private sector would live in one part of town, and those served by government would live some place else. Nevertheless, the federal government would have achieved its goal of resolving the affordable housing shortage, and in one sense at least, the Millennial Housing Commission would have fulfilled its mission.

Local government, though, would have a dilemma. On one hand, it would enjoy the benefit of having helped the better off segregate themselves away from those less fortunate. On the other hand, local government would then face an overwhelming array of problems resulting from such segregation, such as congestion from commuter traffic, crime, and poor schools in the most deprived communities.

Out of respect for local autonomy and knowing just how precarious a position this has historically been for local government, previous federal housing commissions have said very little about demand management--that is, determining where affordable housing ought to go. Not wanting to put the hard work of distributing low-income housing onto the shoulders of local representatives, who were primarily elected to serve the interests of local homeowners, previous commissions have been content to comment on the importance of these matters but not to emphasize them. This commission can and ought to do otherwise.

**The public policy challenge in 2002 is to address our housing affordability problem without causing or worsening neighborhood problems that result from economic segregation.**

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This commission is in a historic position to tackle this challenge because it has at its disposal more than a half-century's worth of lessons of urban policy successes and failures on which to draw.

One of these lessons is that solving a housing shortage can, in the same stroke, cause or worsen other problems. As a result, the Millennial Housing Commission's real duty is far more complex than generating supply. Simply showing Congress how to make more affordable housing won't suffice, because doing so returns to localities a whole host of problems that are not in our interest to create. In this regard, the Millennial Housing Commission's work includes communicating to the country that there are no easy answers to the housing challenge.

The Millennial Housing Commission's duty, therefore, is to help Congress come to terms with certain facts of contemporary economic and social reality that are not reconcilable without a significant change in behavior on the part of average citizens and, by extension, those in local government who represent their interests. This behavioral change simply will not occur in more than a few scattered instances without significant leadership. Such leadership must be exercised at the state and local level, but it is unlikely to occur without partnership at the federal level, a partnership that can begin with a strong voice from the commission.

To exercise leadership on this important subject, the commission must recognize that maintaining policies that strengthen neighborhoods is not easily compatible with addressing affordable housing shortages. Whenever policy or the market or both make a neighborhood better than it was, and better relative to other places, demand rises, prices increase, and housing becomes less affordable. (This is an anecdotal and empirical fact of housing markets, and so obviously normative, yet a striking amount of housing policy develops as though this weren't true.)

This commission should also resist doing what previous commissions have done, which was to describe our housing problem as a supply shortage. Instead, the commission must take the substantial risk of defining a federal role in the delicate work of generating affordable housing while promoting strong neighborhoods, difficult work that involves communicating hard and unwelcome truths to jurisdictions filled mostly with what Dartmouth economist William Fischel calls *homevoters*.

The real work of the commission is to say as much to Congress and to do so in a voice that cannot be ignored. That voice must first acknowledge that the American tendency to segregate is perfectly rational. The challenge for the commission is to then articulate the moral and economic price of doing so, and the commission's basis for encouraging a sea change in federal policy.

If the Millennial Housing Commission does not make clear that the resolution of this *Hobson's Choice* boils down to a battle between competing local interests, the commission might as well just recommend a pure supply-side production program on the cheapest land available.

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Places like Portland have much to recommend in their struggle with this conflict of competing local interests. Though far from perfect, Portland's good judgment in finding some balance between the unfettered market on one hand and draconian regulation on the other has resulted in a livable region where affordability problems are more traceable to population growth and prosperity than to land unavailability.

A region benefits overall when its affordable housing shortage is met by each neighborhood doing what might be called its fair share. However, it is not in any single neighborhood's best interest to do so when the alternative of shifting the affordable housing burden onto another neighborhood remains possible. Yet making such shifts impossible is politically perilous work.

The commission thus faces a challenge to design a politically acceptable federal mandate for neighborhoods to become economically integrated. Developing a process and funding mechanism to make it feasible for as much of this to occur as possible through the private sector, as well as creating a suitable incentive package for local government to be a full partner in this effort, is a huge job.

Giving Congress a body of technical recommendations for stimulating supply is certainly within the commission's purview and to some degree is, in fact, needed. But this commission's real opportunity, as the Brookings Institution's Anthony

Downs has eloquently stated, is to draw attention “to the critical need for structural changes in how housing location decisions are made.” As Downs wrote, “raising the nation’s consciousness about the only effective way to deal with our housing affordability problems may not result in immediate adoption of the necessary institutional changes, but by advocating a bold vision, the commission will have courageously carried out its mission of helping to shape public opinion towards accepting policies that would actually work.”

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In theory, there are two kinds of neighborhoods: those that are segregated by income, and those that are not. In reality, all neighborhoods in America are segregated. There are neighborhoods with households of means, and then all the rest. This is a result of the political market responding to personal consumer preference for homogeneity, and the housing market responding to a homeowner interest in strong and rising property values. It is rational, but it is not fair.

Neighborhoods that are not economically integrated benefit from segregation when their residents are of middle or upper means. Economic segregation enables residents to enjoy rising property values. In turn, this generates valuable political power that is used to establish barriers to affordable housing, thereby keeping out such property-value depressing problems as crime and bad schools. Middle- and upper-income residents of economically segregated neighborhoods not only benefit from property appreciation that outpaces the region, but from a principal that is itself larger. Moreover, these communities’ economic strength creates jobs that provide services they want and can afford.

Neighborhoods that are not economically integrated do not benefit from segregation when their residents are of moderate and lower means. A region’s stock of affordable housing is often located precisely where demand is weak, and usually regions maintain stocks of affordable housing by the implicit policy of keeping some neighborhoods uncompetitive. These neighborhoods suffer from falling property values, which in turn, generates a shortage of political power and an inability to thwart additional over-subsidization of their community or other unwanted land uses. Along with suffering from crime, bad schools, and diminished property values, these economically weak communities also fail to create jobs, which are then created elsewhere, forcing workers in these communities to live far from where they work and from basic services.

When middle-market households evaluate their housing options, they look in one direction and see upper income neighborhoods they cannot afford and lower-income neighborhoods they want to avoid. Unable to move to the upper-income neighborhood and unwilling to move to the lower one, they move to middle-

income communities that tend to be distant, contributing to what we now call sprawl.

This is the status quo. The question confronting the Millennial Housing Commission is whether it will recommend housing policies that would merely coexist with this status quo, or if it is willing to exercise the leadership necessary to change it. To change the status quo here is to recognize that the neighborhood of means presently has no incentive to accommodate its region's need for equitably dispersed affordable housing so long as it can export that burden elsewhere. Local government has no incentive, either, to act with greater regional responsibility.

The Millennial Housing Commission could make the following recommendations to Congress in response to the need for ample incentives:

National Goal and Federal Role	Local Effect	Recommend that Congress...
Reduce federal role in facilitating concentrated poverty.	The local burden of concentrated poverty will have to be more a locally caused condition.	Provide the private sector with incentives to develop rental housing in an 80-20 split, with 80 percent made available to the market. Sliding scale incentives of greater value would go to rental housing developments that are ahead of the market.
		Cease all federal funding for any rental project which has more than 30 percent occupants below 50 percent AMI.
Increase the federal role in recognizing the legitimacy of homeowners' desires for strong property values while making it possible for values to remain strong in the presence of low-income rental infill at low densities in suburban jurisdictions where job creation is taking place.		Fund an insurance program for existing single-family homeowners in communities where their share of rental housing is beneath the regional median. The fund would ensure a fixed rate of return until the neighborhood equalized.
Reduce federal role in encouraging segregation of middle and upper income neighborhoods		Entirely eliminate the mortgage interest tax deduction for homes with a market value greater than the median sales price.
Encourage investment in soft market neighborhoods		Replace the mortgage interest tax deduction with a tax credit for homes with a market value less than the median sales price.

The housing affordability problem is first a **problem of inadequate incomes.**

It is second a **problem of the choices made by those *with* adequate incomes in a free and prospering market.** These are a preference for

1. Economically and racially homogenous communities
2. Safe neighborhoods with good schools, and
3. Cars to get from place to place.

In the context of a growing and more prosperous region and the availability of land, these preferences generate tremendous housing-job distribution problems. A perfect example of this in 2002 is Santa Cruz County, California where 6.9 percent of county residents can afford the \$420,000 median sale price of a home. In a flat or shrinking region, these preferences still generate segregated neighborhoods, but with less congestion. A perfect example of this is Rockford, Illinois, where 89 percent of the residents can afford the \$99,000 median sale price of a home.

It is third a **problem of the concentrated political power of those with adequate incomes.** This typically translates into local land use policies that exclude the poor, plus federal tax, housing, and transportation policies that subsidize the choices of those who already have incomes adequate to make choices in the first place.

Therefore, the Millennial Housing Commission's broad approach should be to recommend that Congress:

1. Respond to the problem of inadequate incomes and provide financial support to local governments that wish to provide housing subsidy and are willing to do so in a regionally beneficial way.
2. Respond to the problem of choice and consequence by underwriting economically integrated housing development, and ceasing to provide support for economically segregated development.
3. Respond to the problem of political power in the hands of suburban homeowner-dominated jurisdictions by funding a package of financial incentives available to local communities that adopt land-use plans that are consistent with long-term regional equitable housing distribution goals

The challenge of responding to a housing problem that is rooted in low incomes and worsened by the actions of the political and economic marketplace is daunting. Doing so in the context of a growing mandate to curb sprawl that could well aggravate the affordable housing problem is even tougher. Specific analysis of the relationship to sprawl and affordable housing is in the initial paper to which this preface statement is made.